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STABILIZATION OF PRICES¹

Two main methods of price making may be noticed: cash and speculative. The cash sales are of two classes: those made by producers to consumers and those made to distributors widely scattered over the territory and hence so close to consumers as to be able to handle the goods with relatively little speculative risk. Of the first class of cash sales, we have as the best instances such as are made around every village by producers to consumers. These sales need not concern us although their prices may be anything but stable. They are unorganized. However, the parties concerned do not make much trouble and hence are left to look out for themselves.

Of the second class of cash sales one of the best instances is the California Fruit Grower's Exchange. Here we have organized cash selling to distributors who make a quick turnover. The California Fruit Grower's Exchange does not speculate, but on the basis of minute information feeds the market geographically, as it were. Chronologically it has less control over the situation. The real advantage to the producer of the California citrus marketing method is the elimination of expense between himself and the consumer in the way of middleman charges on the fruit, and in an ability to take advantage of the best market which the country as a whole affords.

It is within the speculative market that we must concern ourselves most. Of this there are two main varieties. The one is exemplified by the middleman who purchases at his own risk goods not immediately wanted by the consumer, perhaps not in the form ultimately wanted, but which the producer nevertheless wishes to sell. This is the case with cotton, grain, and meat animals. The other type of speculative sale is much more closely related to the cash sale. It is illustrated by the raisin market. The crop is produced during one season of the year. It is prepared for us by the producers, but unlike wheat and cotton it is held by the producers until the trade demands it for almost immediate consumption. Here we have the calculated price. It must not be inferred that speculative price is not a calculated price, or that a calculated price involves no speculation. The speculator is calculating to the best of his ability. The difference lies in the degree of speculation involved as contrasted with ascertainable facts and probable results. The wheat speculator has the world as his field. Crops are being harvested during every month of the year and, since speculating is a nervous business in the face of unknown contingencies, every influence likely to change either demand or supply results in a move-

¹ This paper was read at the Thirty-third Annual Meeting of the American Economic Association, held in Atlantic City, December 29, 1920.

ment which may easily carry the price illogically above or below a normal. The speculators are not of one mind and, information being of an unmeasured sort, it is not strange that the oscillations are nearly always appreciable and frequently violent. In the case of the calculated price, which thus far has obtained in goods of a fairly durable kind, and moreover goods for which the demand is distinctly elastic, it has been found possible for the producers to become strong instead of weak bargainers, and to suggest prices, which for the time may look like fixing prices. The walnut and raisin growers show perhaps as sound skill and ability as any producers' group in this respect. They are sometimes charged with an exercise of monopoly power. The usual explanation of monopoly includes the statement that it literally means "to sell alone." Do these growers enjoy that power? The limits of this paper permit no discussion of the controverted point, yet it must be admitted that their position in the selling field suggests a certain degree of loneliness, even though they are embarrassed by more company than Mr. Rockefeller is reputed to tolerate. The real question is whether or not they serve a useful purpose in the economy of society rather than whether they are or are not monopolies. They do not seem to be monopolies of a sinister or predatory nature since they open their doors to new members each year, and hence do not limit supply.

What these companies actually do is to sell, either for immediate or future delivery, commodities which in their opinions are going to be wanted at a price calculated by them on the basis of complete information concerning supply, and an estimate, based on current and past facts relating to demand. This is a price involving a degree of speculation, and the speculative risk is borne by the producers. The price thus arrived at is relatively stable. The goods are of such a character that it is possible to finance the farmer through advances obtained by loans. Risks, and other expenses, are reduced to a minimum and the producer feels, one time with another, that he is getting what his goods are worth. Under all ordinary circumstances sales will be made at different prices but this is of no importance to the individual producer since the sales are pooled.

Interesting as are those cases of calculated prices, and superior though they may be to the competitive middleman speculation with its more variable price curves, it must be admitted that the latter are more prevalent. Hence after noticing the excellent workings of the coöperative companies which do one of two things, *viz.*, either feed the market daily on a cash basis, or anticipate its needs and do the same thing by weeks or months, it must be admitted that the welfare of the great majority of the farmers hinges more critically on the speculative markets, organized in the form of cotton or grain exchanges, or cen-

tered in such cash buying on relatively short-time speculation as characterizes the purchase of meat animals for fresh meat to be sold within a few days or weeks.

It is a curious fact that when prices are rising rapidly, as they did in 1918 and 1919, no one attributes the rise to the action of speculators, although they are probably bidding high in view of chances of still higher levels. When, however, the case is reversed and prices go downward, from one end of the country to the other comes the accusation against the speculator of crooked dealing. He is charged with the whole blame of lower prices, as in the case of wheat during the last few months of 1920, and at once comes the old outcry against the "gambler," the "manipulator," or more mildly the "parasite."

Our discussion today centers on the question of stabilization, and this may pertain to stability with respect to sales within a few hours, a few days, or spreading into seasons, as from fall to spring. It has been said repeatedly that the unholy manipulators of the grain pits hold prices down while farmers are selling with the well matured and oft repeated plan of putting them up in the spring. If this is such a foregone conclusion, the remedy is obvious. Those who have wheat should hold it till spring and so get the desired price along with the speculators. In other words the cure is counter-speculation. But if this is a fair statement of the unfair situation, why does not some other professional speculator take the opposite course from that of the crowd and buy "long" with as much spirit as the "bears" manifest in selling short, thus narrowing the probable margin of gain? In other words, what reason is there to believe that the professional speculators all prefer to make their money by selling short until the very bottom price is reached, after which, in a rising market, they must buy back every bushel they have sold short and presumably enough more to net them a fortune due to the upturn. It must be left to those who have faith that it can be done to show the method of procedure. To those of a skeptical turn of mind the required formulas are wanting. To begin with, the statistics available show that the price of wheat in May is usually but four or five cents above the December price, and even should we double that amount to conform to the present high figure it would hardly look attractive to the outsider.

Future trading has been condemned by every farmers' organization of note from the Grange of 1870 to the Federation of Farm Bureaus of 1920. It is condemned by the majority of unorganized consumers without doubt. Few careful, and presumably unprejudiced, students of marketing have arrived at a like conclusion. The preponderance of evidence goes to show that organized speculation is a steadying influence in the marketing world. Nowhere else does the producer have

such full information as to the value of wheat as in the United States and Canada; nowhere else does he get as large a proportion of the price paid for grain by the miller or similar manufacturer. Even so, the market is far from perfect and the question is how to improve it by way of taking out the ups and downs, smoothing the curve. The desirability of doing so is beyond question. The difficulty is to find the means of carrying out the program.

The remedies proposed may be reduced to three main kinds. First, there is the ownership of the entire marketing machinery from producer to consumer either by voluntary coöperation or state aid as proposed by the Nonpartisan League. Second, there is the coöperative action on the part of large groups such as the United Farmers of Canada, who take the farmers' grain at a price which the market at the time seems to justify, handle it from country station to the central market, to the mill, or to a foreign port, and return to the group the pro rata returns from the transaction. This results in better prices, and in a measure, more stable prices, but does not eliminate fluctuations primarily. Pooling plays a relatively small rôle in this operation since it does not apply to the first payment for the produce, but only to subsequent additions in the form of trade dividends. The best instance of substantially the same plan is that of the California Fruit Growers' Exchange in the operation of which the ups and downs are equalized fairly well by the pooling process, extending by grades over the sales of each week to each shipper. Third, the control through virtual ownership of the produce, as in the case of the walnut and raisin growers. Here pooling may be extended at will over the season, and the marketing process be thus unified.

In the great cotton and grain markets the latter two methods are contending in the minds of reformers for the first place. Shall the market be accepted much as it is and through the elimination of expense the highest price, which skill and forethought can accomplish, be obtained, or shall a new market be created outside of and independent of the present boards of trade? With livestock the same principles apply, but with much more difficulty. If mere stability of prices over short periods is the desideratum it can no doubt be obtained by coöperative organizations of producers into strong marketing companies which shall handle the produce whether wheat, cattle, or potatoes, and by a pooling process take the kinks out of prices.

If the long seasonal swings of prices are looked upon as the main manifestation of evil, pooling will prove an inadequate weapon and a more drastic remedy must be sought. Here the feeding of the market will be required. In the case of several commodities already mentioned it can be done. It can be done without question with cheese; in fact a

great start has been made in that direction. It should apply to butter with no insuperable difficulties. How then about wheat and livestock? In the case of wheat, which would be almost infinitely easier than livestock to handle in this way, it must be admitted that the proposals up to date are not very impressive. It takes no more words to propose the unification of wheat marketing than of raisin marketing, but to put it into practice requires the coöperation of a hundred times as many farmers. The work of the organization after it is once formed will require a world knowledge, and the operation by those in charge will be subjected to a scrutiny and a comparison such as to give one pause. The first thing which interested parties would propose, no doubt, would be a cutting loose from the world market by a tariff wall. That an organization of wheat growers for the marketing of wheat could be formed with enough coherence and with sufficient size to compel attention is probably not an impossibility. It must not be forgotten, however, that there are a million and a half wheat growers in the United States and that wheat will grow on many farms not now producing it, and that it is but four months from seed time to harvest. Whether or not a group of wheat growers can sit back and wait for millers to come to their terms may well be doubted, unless, indeed, the terms are entirely reasonable as viewed by the buyers. To sit on 100,000,000 bushels of wheat and make that the controlling factor in the wheat market for the year is easily done in imagination at a farmers' meeting but the seat may not prove to be so secure in the actual market. Unless a tariff wall of sufficient height be erected to furnish very real protection, our Canadian friends will part with some of their wheat at about the going world figure and any premium demanded by the farmer company over the world market price will hardly be collectable.

To eliminate the difficulties of instability of prices it would seem that a farmers' company big enough to be able to employ the best of marketing experts with information pertaining to the field of its operations, able and ready to take advantage of the existing market facilities, to sell wheat, for example, in American or European ports; to deal with millers or speculators or order buyers, as our big grain firms now deal; to be able to store grain for those who want to take a chance on future markets, advancing money borrowed on the strength of warehouse receipts to the grower speculator; commanding the situation as a dealer in wheat; pooling sales; and returning to the grower the price received minus expenses—such a company could act as a stabilizing force and incidentally get all that the market, a competitive market, will afford for its clients.

It should be remembered that the supply of agricultural produce

must of necessity be projected in advance, a matter of months or years. It cannot be put up and down from week to week by employing more men and capital, as is the case with coal. Few problems present greater difficulties. Even so, a widespread network of coöperative companies with unified intelligence can no doubt, when necessity compels it, feed produce, cotton, grain, and livestock into a market somewhat in proportion to demand—a demand about which the main facts are known.

This is what is being done, in part, in the city milk markets. The producers are taking care of the surplus and pooling the sales. By this means surpluses are bound to be reduced, since every monthly statement to the producers is testimony on the wisdom of producing for a market according to its demands.

It may be playing an inferior rôle to suggest that we had best make haste somewhat slowly in the matter of stabilization of prices, but it would seem the part of wisdom and safety to use the machine we have, even in spite of some defects, rather than to scrap it before its successor has reached the blue-print stage.

Pooling has worked admirably in the sale of such unlike products as wool and cheese; and, although it will not be an easy matter to apply the principle to cotton, grain, and livestock, who shall say it cannot be done. Certain prophetic utterances concerning aerial navigation following the experiments of Darius Green contributed to the amusements of the period, but did not deter the Wright brothers. It would be just as logical to complain about the erratic rising and falling of a gauge in a tank into which unknown and unanticipated quantities of liquid were being promiscuously poured, blaming the gauge for not keeping at the same level, as to complain about the middlemen on the score of unsteady prices. We keep them all guessing. It is time for the producers to begin to regulate the supply flow for the season before complaining further about instability of prices. The world has outgrown the conditions under which unscientific, blind competition among producers can bring prosperity to themselves, or to the larger public. Unregulated competition with its psychological tendencies to extreme action and reaction requires a balance wheel of regulation. Supply and demand will still operate, but they must be made to operate according to rule instead of as outlaws.

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